

20 January 2012

Appraisal Well Results; Elevela-2 PNG

▶ **Price Target:** \$0.39/sh

▶ **Investment Case:**

The successful appraisal drilling at Elevela-2 has defined the Gas Water Contact (GWC) of the reservoir, potentially underpinning an inclusion to existing resources. The results are positive first steps towards commercialisation and highlight the prospectivity of the PRL21 Block. We have increased our valuation by 4cps to \$0.39/sh, recognising the contingent volumes of condensate and gas substantiated by the Elevela-2 well. We continue to like HZN's asset base, but remain cautious of funding risk, particularly a reliance on debt.

▶ **Key Points:**

- The Elevela-2 appraisal well (HZN 40%) has confirmed the gas/condensate zone in the primary Elevela sandstone.
- Results imply that shallow to prognosis the hydrocarbon accumulation extends further north.
- A GWC has been defined by the side track, establishing a gas column >50m.
- Drilling results coupled with interpretation of the seismic over the structure will substantiate and potentially increase the mean contingent resource estimates: currently 302bcf of gas and 19.3million barrels of condensate gross.
- The Elevela-2 well is to be suspended for possible future production use.
- The forward plan is to move to the Ketu-2 drill site for upcoming well spud.

▶ **Analysis:**

The results of the Elevela-2 drilling campaign is viewed as a positive step forward for HZN in defining commerciality of the asset.

The fact that the hydrocarbon accumulation is seen to extend further north than expected and the associated gas column has a thickness in excess of 50m, are encouraging for possible increases to the resource in the future.

The recent results coupled with previous successful flow rates at Elevela-1 (1989-1990) of 11.9mmcf/day of gas and 634bbbls/day of condensate, warrant the increase to our valuation of the PRL21 block.

Our nominal valuation of the permit (net to HZN) has increased to \$63m equating to \$0.06/sh on a \$5/bbl and \$0.20c/mcf in ground metric.

Success in the upcoming drilling campaign of Ketu-2 together with seismic acquired over the lease will act to refine reservoir volumetrics, ultimately defining commercial viability of the permit. This provides future upside to our current valuation of \$0.39/sh.

Contact Details

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HORIZON OIL LIMITED (HZN)		YEAR END 30 JUN				
MARKET STATISTICS						
Share Price	\$0.22 A\$/sh	Directors				
Issued Capital		F Ainsworth				Chair'n
FP Ord	1,130.8 m	B Emmett				CEO
	40.0 m	P Nimmo				Non- Exec Dir
Total Dil. FPOrd	1,130.8 m	J Humphrey				Non Exec Dir
		R Laws				Non Exec Dir
Market Capitalisation	\$243 m	G de Nys				Non Exec Dir
Enterprise Value	\$414 m	M Sheridan				CFO
Debt	\$(220)m	Shareholders				
Cash	\$49 m	Austral Asia Energy				12.0%
		Acorn				7.4%
ASSET VALUATION						
		A\$m				A\$/sh
Maari		102				0.09
Wei		248				0.22
PNG - Stanley		176				0.16
PNG - Elevala Ketu		63				0.06
Corporate (incl tax credits)		(37)				(0.03)
Other Assets (PNG Gas + NZ Exp)		50				0.04
Unpaid Capital		8				0.01
Hedging		-				-
Debt		(220)				(0.19)
Cash		49				0.04
Total @ 10% nom		438				0.39
F/CAST PRODUCTION (A\$m)						
	2011a	Dec H'11f	2012f	2013f	2014f	
Maari	0.6	0.3	0.5	0.5	0.4	
Wei	-	-	0.0	0.8	2.0	
PNG - Stanley Condensate	-	-	-	0.2	0.4	
Total Attrib (mmbobe)	0.6	0.3	0.5	1.6	3.4	
Assumptions						
Avg Oil Price (US\$/bbl)	89.9	91.8	90.9	100.0	100.0	
US\$:A\$	0.99	1.03	1.02	1.00	1.00	
Cash Cost (US\$ inc. Royalty)						
Maari	15.6	7.6	15.1	15.0	13.3	
Wei	-	-	0.0	7.7	27.4	
PNG - Stanley Condensate	-	0.0	0.0	2.8	4.0	
Total Cash Cost (US\$m)	15.6	7.6	15.2	25.5	44.7	
Ave Cash Cost (US\$/boe)	27.3	30.4	30.2	27.5	13.1	
Ave Total Cost (US\$/boe)	44.9	50.7	51.1	49.4	36.8	
RATIO ANALYSIS (A\$m)						
	2011a	Dec H'11f	2012f	2013f	2014f	
CF (US\$m)	0	(11)	(70)	(53)	185	
CF / Sh (Ac/sh)	0	(1)	(6)	(5)	16	
CF Ratio (x)	1,375	-	na	na	1	
Earnings (US\$m)	35	4	4	27	107	
EPS (Ac/sh)	3	0	0	2	9	
EPS Growth (%)	-39%	0%	-89%	602%	294%	
Earnings Ratio (x)	11.6	-	62.8	8.9	2.3	
E'prise Val. (A\$m)	335	130	9	21	(79)	
EV : EBITDA (x)	5.2	-	0.2	0.2	na	
EV : EBIT (x)	6.8	-	0.4	0.3	na	
Net Debt / ND+Eq (%)	na	0%	42%	48%	10%	
Interest Cover (x)	0.9	-	na	na	16.2	
EBIT Margin (%)	60%	0%	47%	46%	59%	
ROE (%)	15%	0%	2%	12%	31%	
ROA (%)	19%	0%	7%	14%	33%	
Div. (Ac/sh)	-	-	-	-	-	
Div. payout ratio	-	-	-	-	-	
Div. Yield	-	-	-	-	-	
Div. Franking	-	-	-	-	-	

PROFIT AND LOSS (A\$m)	2011a	Dec H'11f	2012f	2013f	2014f
Oil Equivalent Sales	59	28	56	146	304
Hedging Revenue	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Interest Revenue	1	1	2	1	2
Other Revenue	23	-	-	-	-
TOTAL REVENUE	83	29	58	147	305
Operating Costs	9	3	5	16	35
Dep/Amort	10	5	11	34	81
O/H + New Bus Dev	10	4	7	7	7
W/O & Provisions	4	3	7	21	3
EBITDA	63	22	44	123	261
EBIT	49	14	26	68	178
Interest Expense	1	2	9	16	13
NPBT	49	13	20	53	166
Tax	7	4	6	16	50
NZ royalty	-	-	-	-	-
Minorities	-	-	-	-	-
NET PROFIT	35	4	4	27	107
Net Abnormal Gain/(Loss)	20	-	-	-	-
NET PROFIT After Abn'l	16	4	4	27	107
CASH FLOW (A\$m)					
	2011a	Dec H'11f	2012f	2013f	2014f
Net Profit	16	4	4	27	107
+ Working Capital Adj.	9	-	-	-	-
+ Dep/Amort	10	5	11	34	81
+ Provisions	4	3	7	21	3
+ Tax Expense	7	4	6	16	50
- Tax Paid	4	2	6	(1)	44
Operating Cashflow	42	14	22	99	196
-Capex + Development	42	25	92	152	11
-Exploration	35	15	35	43	5
-Assets Purchased	1	2	2	-	-
+Asset Sales	22	-	-	-	-
+ Other	-	-	-	-	-
Investing Cashflow	(55)	(42)	(129)	(194)	(16)
+Equity Issues	1	-	-	-	-
+Loan D'down/Receivable	78	-	100	40	-
+Other	-	-	-	-	-
-Loan Repayment	27	-	-	-	40
-Dividends	-	-	-	-	-
Financing Cashflow	51	-	100	40	(40)
Period Sur (Def)	38	(28)	(7)	(55)	140
Cash Balance	65	37	58	3	142
BALANCE SHEET (A\$m)					
	2011a	Dec H'11f	2012f	2013f	2014f
Assets					
Cash	65	37	58	3	142
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Non-Current Assets	188	223	304	464	400
Total Assets	253	261	363	468	543
Liabilities					
Borrowings	7	80	180	220	180
Current Accounts Payable	12	12	12	12	12
Other Liabilities	0	0	0	0	0
Total Liabilities	18	92	192	232	192
Net Assets	235	169	171	236	351
RESERVES AND RESOURCES					
	Oil	LPG	Cond	Gas	Total
	mmbbls	ktonnesmmbbls		PJmmbobe	
Maari	4.3				4.3
China	2.7				2.7
PNG - Stanley Gas				150.0	22.7
PNG - Stanley Condensate			4.1		4.1
Total	7.0	-	4.1	150.0	33.8
EV / boe (A\$)					12.2